

Message Text

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ACTION EB-07

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 /098 W

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 6338

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: RECENT FOREX MARKET DEVELOPMENTS

1. YEN WEAKENED ABRUPTLY THIS PAST MONDAY. IN HEAVY VOLUME OF \$264 MIL TRADE THAT DAY, BOJ REPORTEDLY PURCHASED \$200 MIL TO MODERATE YEN RISE. IN FORWARD MARKET, DOLS MOVED TO DISCOUNT COMPARED WITH SMALL PREMIUM LAST WEEK. THESE DEVELOPMENTS TRIGGERED BY REVERSAL IN EXPECTATION THAT JAPANESE TRADE AND BALANCE OF PAYMENTS WILL BE WEAK THIS YEAR.

2. STATISTICS ON EXPORTS (CERTIFIED AND CUSTOMS BASIS), AND REPORTS CONFIRM THAT JAPAN'S TRADE POSITION IS STRENGTHENING IN CONTRAST TO PREVIOUS EXPECTATION THAT IT WAS WEAKENING. EVIDENTLY, AUTO AND ELECTRONIC MANUFACTURERS, AS WELL AS TRADING COMPANIES, SEEING SOME DOL WEAKENESS IN EUR AND ANTICIPATING STRONG EXPORT PERFORMANCE FOR JAPAN, BEGAN SELLING DOLS ON FORWARD MARKET. THIS DROPPED FORWARD DOL TO DISCOUNT AND ACCELERATED CHANGE IN MARKET PSYCHOLOGY. FOREX BANKS PURCHASING THESE FORWARD DOLS WERE OBLIGED TO SELL SPOT DOLS IN ORDER TO MEET BOJ REQUIREMENTS FOR BALANCE IN THEIR FOREIGN EXCHANGE ASSET/LIABILITY POSITION. YEN

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ROSE FROM A LOW ON FRIDAY, JAN 16 OF 305.75, TO A HIGH

ON TUESDAY, JAN 20, OF 303.10.

3. DISCOUNT OF FORWARD DOL CREATED PROFITABLE ARBITRAGE OPPORTUNITIES IN TWO-MONTH GOJ TREASURY BILLS. THIS STRENGTHENED FORWARD RATE (FROM DISCOUNT OF 1.28 PERCENT P.S. ON TWO-MONTHS, JAN 20, TO ONLY 0.30 PERCENT P.A. ON JAN 21, ON TWO-MONTH FORWARD CONTRACTS). IT ALSO TENDED TO STRENGTHEN DOL IN SPOT MARKET.

4. FOREX DEALERS REPORT THAT CLOSING OF ITALIAN FOREX MARKET APPEARS TO HAVE HAD LITTLE IMPACT IN TOKYO, ALTHOUGH STRENGTHENING OF DOL AGAINST EUR CURRENCIES HAS BEEN REFLECTED TO SOME EXTENT IN TOKYO BY A WEAKENING OF THE YEN DURING LATTER PART OF WEEK.

5. JAPAN DEC CUSTOMS TRADE HAS BEEN REPORTED IN SEPTEL. B/P STATISTICS RELEASED THIS AFTERNOON SHOW EXPORT (S.A., IMF BASIS), UP 11.4 PERCENT, IMPORTS UP 4.7 PERCENT, AND A TRADE SURPLUS OF \$433 MIL COMPARED WITH NOV BALANCE OFF \$135 MIL (S.A.). JAPAN'S BASIC BALANCE RECORDED A SURPLUS OF \$480 MIL IN DEC, IN COMPARISON WITH DEFICIT \$173 MIL IN NOV (N.S.A.). OVERALL BALANCE WAS IN SURPLUSE OF \$610 MIL AS AGAINST DEFICIT OF \$401 MIL IN NOV. THE \$1 BIL IMPROVEMENT WAS ALMOST MATCHED BY SWING IN COMMERCIAL BANK SHORT-TERM POSITION, TO NET EXPORTS OF \$760 MIL IN DEC. DESPITE THAT STRONG DEC B/P PERFORMANCE, THE YEN WAS WEAK IN THE FOREX MARKET LAST MONTH WITH THE PREMIUM ON THE FORWARD DOL RISING ABOVE 3 PERCENT P.A. AT TIMES.

6. THIS WEEK'S STATISTICAL RELEASES HAVE TEMPORARILY IMPROVED OUTLOOK FOR YEN. NEVERTHELESS, AFTER WEDNESDAY, SPOT YEN WEAKENED SLIGHTLY TO MEDIAN RATE OF 304.20 YEN/DOL ON FRIDAY (FROM 303.70 YEN/DOL ON WEDNESDAY), IN LIGHT TRADING. VOLUME FOR THE WEEK WAS \$665 MIL SPOT (VERSUS \$397 MIL LAST WEEK), \$584 MIL IN FORWARDS (\$404 MIL, AND \$758 MIL IN SWAPS (\$442 MIL).
SHOESMITH

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